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CIA, DIA SAY GORBACHEV GROWTH GOAL WILL NOT IMPEDE DEFENSE

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WASHINGTON

Two U.S. intelligence agencies said today Soviet leader Mikhail Gorbachev's goal of improving a sluggish economy by modernizing industry will not impede production of strategic weapons for the next few years.

The Central Intelligence Agency (CIA) and Defense Intelligence Agency (DIA) also told Congress in a joint report their newly revised estimates of Soviet economic growth show a lower growth rate of under two per cent in the last two years.

Earlier intelligence reports had put growth after inflation at or above two per cent in 1985 and 1984.

Gorbachev, who inherited a powerful military establishment but a shaky economy, has made economic growth a major goal by improving an outdated civilian industrial plant.

This could lead to fierce competition for steel and other resources between industrial planners and the military, the U.S. agencies said.

But they said that because of past heavy investment in military assembly lines, which can not be readily converted to civilian use, "the industrial modernization goals are unlikely to significantly impede the completion of the major deployments of strategic weapons that the Soviets have programmed through the 1980s.

"Thus Gorbachev can coast for a few years on the strength of the USSR's past investment in its military-industrial complex, which will permit the continued modernization of the USSR's strategic and conventional forces."

The real test will come in several years when defense industries must tool up for a new generation of weapons in the face of resource allocation, the report said.

Richard Kaufman, an analyst on the Congressional Economic Committee, where the report was presented secretly 11 days ago, told Reuters a question remained whether the economic goals of Gorbachev can be met without further slowing defense.

Releasing the report, Democrat Sen. William Proxmire of Wisconsin said "The latest intelligence assessment shows a Soviet Union struggling to regain the path of sustained rapid growth. If I am correct, Gorbachev's efforts may be doomed unless there is a real cutback in defense."

The agencies revised their measure of the Soviet economy, or GNP, by using 1982 prices instead of the old method of using 1970 prices. As a result of what they call a major revision, they now estimate that total Soviet economic growth after inflation has been much slower than previously calculated.

In 1985 preliminary estimates, they figured Soviet GNP after inflation at 1.6 per cent, compared to 2.1 per cent previously. For 1984, the new estimate is 1.5 per cent compared to 2 per cent using 1972 dollars.

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In earlier years, the agencies had said the annual growth of Soviet defense spending had started slowing down in the 1970s from about four per cent to two per cent a year. It now says this slowdown started occurring in 1975, or two years earlier than it had figured before..

But the estimate of defense spending as a share of the total economy was figured by the agencies as rising from 12 to 14 per cent in the early 1970s to 15 to 17 per cent in the early 1980s.

By comparison, in 1970 the United States spent 8.2 per cent of its total economic output on defense, and President Reagan estimated 6.4 per cent was spent in 1985.